

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE EMFULENI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Emfuleni Local Municipality which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages x to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Property, plant and equipment

7. The municipality did not account for the property, plant and equipment as disclosed in note xx to the financial statements in accordance with the initial recognition and measurement criteria of SA Standards of GRAP, GRAP17, *Property, plant and equipment*. The property, plant and equipment were not reviewed for the recognition criteria, useful lives, residual values, impairment, revaluation and depreciation. The municipality's records did not permit the application of alternative audit procedures regarding property, plant and equipment. Consequently, I was unable to obtain explanations and sufficient audit evidence I considered necessary to satisfy myself as to the classification and valuation of property, plant and equipment.
8. I was unable to verify the existence of property, plant and equipment to the value of R39 319 144 (2008-09: R25 506 294). Management was in a process of implementing a project to identify assets. The municipality's records did not permit the application of alternative audit procedures regarding the existence of property, plant and equipment. Consequently, I was unable to obtain explanations and sufficient audit evidence I considered necessary to satisfy myself as to the existence of property, plant and equipment.

Statement of changes in net assets

9. The accumulated surplus balance at 1 July 2008 stated in the statement of changes in net assets of R543 134 938 include uncorrected misstatements of service charges and employee costs of R44 183 405 reported in the 2007-08 audit. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to obtain explanations and sufficient audit evidence, I considered necessary to satisfy myself as to the valuation of accumulated surplus at 1 July 2008 stated in the statement of changes in net assets.

Qualified opinion

10. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Emfuleni Local Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

11. With reference to note 29 to the financial statements, the corresponding figures for 30 June 2009 were restated as a result of an error discovered in 30 June 2010 in the financial statements of the Emfuleni Local Municipality at, and for the year ended, 30 June 2009.

Significant uncertainties

12. With reference to note xx to the financial statements, the municipality is a defendant in a number of legal claims. The ultimate outcome of these claims cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Material losses

13. As disclosed in note 31.3 to the financial statements, material losses to the amounts of R120 916 233 and R125 552 143 were incurred as a result of electricity and water losses respectively.

Additional matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter

Unaudited supplementary schedules

15. The supplementary information set out on pages 60 to 72 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations MFMA, Municipal Regulations (Regulations – GNR/GN), Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), Municipal Structures Act, 1998 (Act No. 117 of 1998), and financial management (internal control).

Predetermined objectives

Non-compliance with regulatory and reporting requirements

17. Material findings on the report on predetermined objectives as set out on pages 246 to 292 are reported below:-

Inadequate content of integrated development plan

18. The integrated development plan of the Emfuleni Local Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Inadequate presentation of reported information

19. The reported performance information to be included in the annual report was not presented in a simple, accessible format, relevant and useful to the intended user, and/or in accordance with the requirements of MFMA circular 11 and the relevant guidance applicable to reporting for the financial year-end.

Lack of adoption or implementation of a performance management system

20. The Emfuleni Local Municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Existence and functioning of a performance audit committee

21. The Emfuleni Local Municipality did not appoint and budget for a performance audit committee, nor was another committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

22. The internal auditors of the Emfuleni Local Municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager.

No mid-year budget and performance assessments

23. The accounting officer of the Emfuleni Local Municipality did not by 25 January 2010 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of MFMA.

Usefulness of reported performance information

24. The following criteria were used to assess the usefulness of the planned and reported performance:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
 - Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?

- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria.

Changes to planned performance information not approved

25. The Emfuleni Local Municipality reported on objectives, indicators and targets different from those as per the approved integrated development plan. Furthermore, these additional or different objectives, indicators and targets were not approved subsequent to the strategic planning process.

Planned performance targets not specific, measurable and time bound

26. For the selected objectives, the planned and reported targets were not:
 - specific in clearly identifying the nature and the required level of performance;
 - measurable in identifying the required performance;
 - time bound in specifying the time period or deadline for delivery.

RELIABILITY OF REPORTED PERFORMANCE INFORMATION

27. The following criteria were used to assess the usefulness of the planned and reported performance:
 - **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
 - **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
 - **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings above relate to the above criteria.

No reporting against pre-determined objectives, indicators and targets

28. The Emfuleni Local Municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3) (c) of the MFMA.

Compliance with laws and regulations

Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

Mayor did not adhere to legislative responsibilities

29. Contrary to the requirements of section 53(1)(c)(ii) of the MFMA, the mayor did not ensure that the council approve the municipality's service delivery and budget implementation plan within the days after the approval of the annual budget.

Expenditure was not paid within the parameters set by the applicable legislation

30. Contrary to the requirements of section 65(2) (e) of the MFMA, the accounting officer did not take reasonable steps to ensure that money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement.

Financial statements were not prepared in accordance with applicable legislation

31. Contrary to the requirements of section 122(1) of the MFMA, the municipality did not prepare financial statements in accordance with the legislative requirements as the financial statements submitted for audit on 31 August 2010 had material audit amendments made to employee cost, provisions and equity.

Audit committee was not properly established

32. Contrary to the requirements of section 166(1) of the MFMA, the municipality did not have an audit committee from 1 January 2010 to 9 June 2010.

Code of conduct of councillors

No declaration of financial interest by majority of councillors

33. Contrary to chapter 7 of the Code of conduct of councillor's, certain councillors did not declare within 60 days when elected or appointed, in writing to the municipal manager, their interests held.

INTERNAL CONTROL

34. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
35. The matters reported below are limited to the significant deficiencies regarding the basis for the qualified opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

Oversight responsibility

- The accounting officer did not exercise sufficient oversight over the financial statements, predetermined objectives and laws and regulations by ensuring the matters reported in the prior year were resolved.

Financial and performance management

Quality, reliable financial statements

- The financial statements were subject to material amendments resulting from the audit and there were a number of findings relating to non compliance in the prior year which remained unresolved in the current year.

Adequate financial and performance management system

- Systems were not appropriate to facilitate the preparation of the financial statements and performance reports.

Governance

- During the period 1 January 2010 to 9 June 2010 there was no audit committee. Furthermore, there was no performance audit committee for the period 1 July 2009 to 9 June 2010.

Other reports

Investigations in progress

36. There were a number of investigations being conducted into the procurement process at the municipality and were still ongoing at reporting date.

Auditor-General

Johannesburg

30 November 2010



**AUDITOR-GENERAL
SOUTH AFRICA**

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